1930

Economic Conditions
Governmental Finance
United States Securities

New York, February, 1930.

General Business Conditions

THE month of January has witnessed an impressive comeback in industrial activity from the low point reached in November and December. The best evidence of this is in the iron and steel industry, where operations since the end of December have been stepped up rapidly from around 40 per cent of capacity to 75 per cent, with some few companies at the end of January ranging as high as 100 per cent.

Some recovery after the first of the year was looked for in the steel business, if for no other than seasonal reasons, but the improvement actually attained has exceeded expectations. According to the Iron Age, the decisive character of the upturn has surprised both consumers and producers alike,—so much so in fact that a number of the larger mills, skeptical of its duration, have hesitated to increase their operations as fast as business seemed to warrant.

Taking the steel industry as a whole, the present rate of operations compares with 85 to 90 per cent at this time a year ago, and with 80 per cent two years ago. While this is a decrease for this year, nevertheless when consideration is given to the happenings of the past few months in the field of business and speculation it would seem that the steel industry has done exceptionally well and the showing is encouraging as regards business prospects for the year.

Some further weakness in prices has appeared in January which carried the Iron Age's composite steel price index to the lowest since November, 1927, but with the better business in sight, producers lately have shown more resistance to price reductions, and if business continues to gain the price structure should right itself as a matter of course.

Breadth of the demand for steel is one of the significant features of the situation, whether viewed from the standpoint of the steel demand alone, or more broadly for what it signifies as to conditions of general business. Commenting on the sources of steel buying, the Iron Trade Review in its issue of January 29 says:

> **Automotive requirements, while spotty, are enlarging rapidly, with a year not far behind 1929 now in prospect. Producers of railroad track material already are at a 90 per cent gait. Car builders' specifications practically match last year's. Building steel needs, especially for bridges, are opening up. Of major outlets for finished steel, only pipe fails to participate in general improvement.**

To which it may be added that the insistence of buyers on prompt shipments bears out previous reports that stocks of steel in consumers' hands are unusually low.

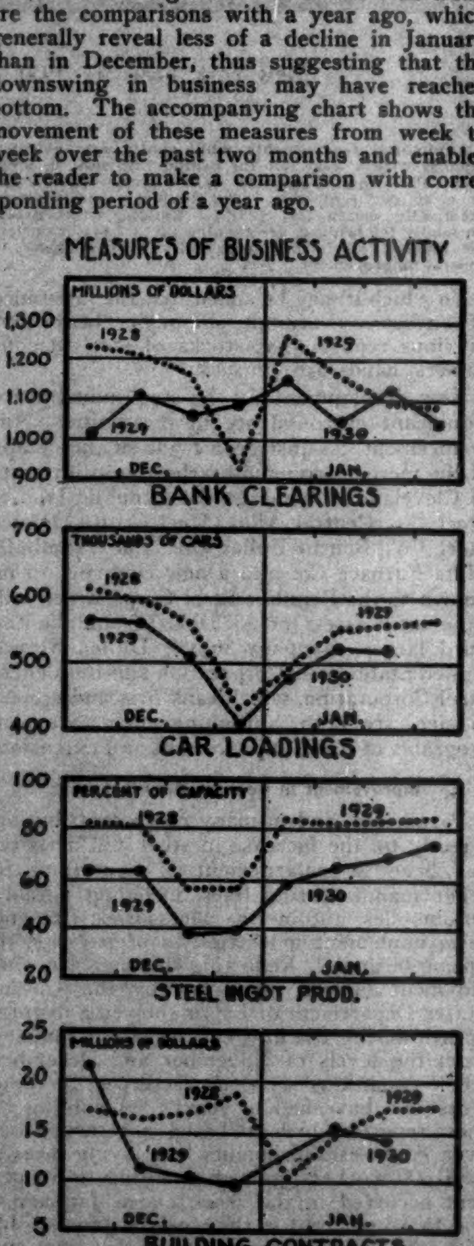
New developments in the steel industry are significant of confidence in the future. Announcement has just been made of the details of the merger arranged by the Eaton interests of Cleveland to combine the Republic Iron & Steel Co., Central Alloy Steel Corp., Donner Steel Co., Bourne-Fuller Co., and Trumbull-Cliffs Furnace Co. into a new company to be known as the Republic Steel Corp., which will have total assets of $335,000,000 and be the third largest company in the United States. United States Steel Corporation and Bethlehem Steel Corporation, which rank first and second in size, are both continuing their extensive programs of plant improvement and extension.

Improvement in General Manufacturing

Paralleling, and in many cases contributing directly to, the increase in steel mill activity, has been an enlargement of operations in other manufacturing lines, including notably automobiles, automotive accessories, tire and farm implement industries, in preparation of Spring business. Reflecting this increase, employment figures given out by the United States Department of Labor showed a distinct upturn during the first two weeks of January from the levels of November and December when conditions were characterized as "the worst we have had in years." According to these reports, which are based on returns from over 8,000 establishments employing nearly 2,500,000 workers, gains amounting to 3.4 per cent occurred in the week ended January 6 and to 3.3 per cent in the week of January 13, with the largest increment in the iron and steel and automobile industries.

Other statistical measures of business activity thus far available for January, such as bank clearings (excluding those of the largest cities as influenced too greatly by security transactions), railroad carloadings of merchandise and miscellaneous freight, steel mill activity, and building contracts awarded, all show increases as compared with December low points, due partly, however, to seasonal causes. More significant as to the true trend are the comparisons with a year ago, which generally reveal less of a decline in January than in December, thus suggesting that the downswing in business may have reached bottom. The accompanying chart shows the movement of these measures from week to week over the past two months and enables the reader to make a comparison with corresponding period of a year ago.

MEASURES OF BUSINESS ACTIVITY



Factors Influencing Recovery

To what extent the improvement in business is indicative of a real upturn in the trend it is still too early to say with certainty. At this time of year consumer demand is usually slack even in normal times, and the activities of business are largely concerned with production for the Spring trade. It remains to be seen, therefore, what sort of a reception the goods now being produced will have when they come to market. In the automobile industry, for example, which is so important a factor in steel and numberless other industries, production is being stepped up in preparation for the Spring season, but no real line on prospects for the industry can be had until the retail buying season begins. At the present time the consumer market is practically dead. Similarly, in many other lines which are now expanding output, the final test as to improvement is still to come. Nor should mention be omitted of the building industry where promptness or delay in getting under way this Spring will be an important factor in determining the course of general business.

Admitting these uncertainties, there are nevertheless numerous reassuring aspects of the situation which justify a hopeful view of recovery. We have already referred in past issues of this Bank Letter to the generally low inventories in most lines of business. While some exception should possibly be made of the automobile industry, producers in that line have been taking vigorous steps to correct the situation and the general view is that total motor car production for 1930 should not fall more than 10 to 15 per cent under that of 1929 which would still leave it around the levels of 1928, the record year up to that time.

Other Active Industries

Moreover, 1930 began with a considerable carryover of business and promising outlook in a number of important industries, including electrical and railroad equipment, farm implement manufacturing and shipbuilding, which should tend to offset less favorable prospects in other lines.

In the electrical industry, General Electric Company booked 23 per cent more orders in the fourth quarter of 1929 than in the same period a year previous. Western Electric Company's unfilled orders December 31st were the largest in the company's history. Allis-Chalmers Manufacturing Company had unfilled orders on January 1, 1930, of $13,039,000 compared with $9,000,000 on January 1, 1929, and orders taken in December, totaling $3,256,000, were larger than in December, 1928. Frigidaire Corporation reports that its sales quotas this year will be larger than last, and states that sales of electric refrigerators in 1929 were 25

per cent larger than 1928, also that there has been an upswing in January orders.

Railroad freight cars on order January 1, 1930, amounted to 34,581, which compares with 13,036 on January 1, 1929, and is the largest for any corresponding date in four years.

A continued good demand for machinery is expected from a variety of other important industries, including farm implements, aviation and shipbuilding. Production of commercial aircraft in 1929 increased over 1928 by 51 per cent in numbers and 96 per cent in values. While a certain amount of unsettlement has taken place in the industry because of the entrance of so many small and weakly-financed manufacturers, the outlook for 1930 and the longer future is one of assured progress. Air mail transported over government routes last year totaled 7,097,099 pounds as compared with 3,542,079 pounds in 1928, an increase of slightly more than 100 per cent. In the shipbuilding industry, vessels under construction in United States yards at the beginning of 1930 totaled 179,062 gross tons, compared with 48,000 tons at the beginning of 1929, an increase of 273 per cent.

Nor should mention be overlooked of the significance to the textile industries of the new style trend towards longer dresses which many textile men believe will exert an important influence upon their industry, both because of the incentive to new buying and the larger yardage of material consumed.

The Building Outlook

Outlook for building construction in 1930, according to the F. W. Dodge Corporation, is for a total expenditure of approximately $8,514,000,000, which would be well in excess of the total for 1929 and about the same as the average for the past five years 1924-28. An examination of the make-up of the estimate for 1930 shows the following major changes as compared with 1929:

MILLIONS OF DOLLARS	
Commercial buildings	—$96
Industrial buildings	— 37
Educational buildings	+ 27
Hospitals and institutions	+ 8
Public buildings	+ 35
Religious and memorial	+ 16
Social and recreational	+ 33
Total non-residential	— 15
Apartments	+240
Dwellings	+ 15
Two-family houses	+ 45
Housing developments	+ 91
Hotels	+ 1
Total residential	+392
Public works and utilities	+280
Miscellaneous new	+ 35
Remodeling, etc.	+145
Grand total	+$837

It will be observed that the largest increases are in residential building and public works. With an easing of mortgage money conditions it will be possible to finance residential building at reasonable costs, and the retarded activity last year has helped to correct the conditions of over-supply that then existed. There is a very considerable demand for public improvement projects, both buildings and engineering works, and the President's conferences have tended to speed up work of this type. Municipal financing is again possible at normal rates.

Other estimates on building construction this year are in line with the Dodge figures quoted above but do not go so fully into detail. A survey by the Engineering News-Record indicates that construction in 1930 will "easily equal" if not exceed figures of 1928 and 1929. The Department of Commerce forecasts $7,000,000,000 of public works and utilities construction in 1930. The Copper and Brass Research Association estimates a national building program of $9,000,000,000 in 1930. Railway expenditures are estimated at $1,050,000,000 compared with $800,000,000 in 1929.

Business Profits

Annual stockholders' reports of industrial corporations covering 1929 are now beginning to come out in numbers and are being studied with interest for indications of the effect on earnings of the business recession during the final quarter of the year. There is not yet a sufficient number of reports in hand to arrive at a final conclusion as to the earnings of business as a whole or for most individual lines, hence not until the March issue of this Letter will our complete tabulation of reports classified according to all major industries be presented.

As a matter of interest, however, we are presenting a summary of the 1929 reports that have been issued to date by industrial and trading companies, also railroads and public utilities, with the qualification that the exhibit is preliminary. Of the 432 industrial and trading companies, 165 or over one-third are for the year ended December 31, while the remainder are for fiscal periods that end in the latter half of the calendar year but before December 31. Classification has been limited to broad groups, and a number of lines for which there are not yet sufficient reports to make a fairly representative showing are carried in the miscellaneous item.

Figures represent net profits available for dividends or to carry to surplus, i. e., after all expenses, interest charges, depreciation and depletion reserves, inventory adjustments, and provision for taxes have been deducted, except in the case of the railroads and utilities, where the "net operating income" is used.

PRELIMINARY SUMMARY OF AMERICAN CORPORATION EARNINGS
(Net Profits—000's omitted)

No.	Industry	Fiscal Years 1928	1929	Per Cent Change
6	Agricultural Impl. ..	$ 11,453	$ 18,791	+64.1
11	Amusements	36,522	67,780	+85.6
14	Apparel	10,421	10,415	— 0.01
11	Automobiles	339,523	304,988	—10.2
13	Auto Accessories ..	19,762	20,939	+ 6.0
9	Bakery	35,906	40,317	+12.3
15	Building Materials ..	14,767	19,181	+29.9
9	Chemicals	101,404	114,929	+13.3
23	Cotton Mills	9,539	8,233	—13.7
6	Drugs and Sundries	19,581	24,692	+26.1
12	Electrical Equipment	9,823	10,640	+ 8.3
5	Fertilizer	11,470	9,045	—21.1
9	Flour Milling	8,385	10,125	+20.8
24	Food Products	60,313	65,692	+ 8.9
9	Household Equipment	18,268	17,859	— 2.2
19	Iron and Steel......	184,640	315,147	+70.7
10	Lumber & Furniture	2,602	3,107	+19.4
24	Machinery	17,428	23,779	+36.4
16	Meat Packing	37,961	35,712	— 5.9
23	Merchandising	102,457	102,165	— 0.3
7	Metals, Non-Ferrous	6,303	8,070	+28.0
7	Paint and Varnish..	11,289	12,996	+15.1
13	Paper Products	7,564	8,847	+17.0
14	Petroleum	38,988	54,389	+39.5
5	Printing and Publish.	20,449	21,679	+ 6.0
8	Rubber Mfg.	10,626	16,141	+51.9
9	Shipping, etc.	4,989	8,347	+67.3
8	Silk and Hosiery...	3,842	5,765	+50.0
24	Sugar Production...	5,376	†1,532	— ..
7	Textile Prod., Misc.	2,950	3,521	+19.4
10	Tobacco	60,317	67,497	+11.9
54	Miscellaneous	58,749	68,990	+17.4
432	Mfg. and Trading...	1,288,462	1,499,053	+16.3
131	Railroads	1,193,134	1,276,586	+ 7.0
98	Telephone	253,197	271,274	+ 7.1
85	Other Utilities	868,703	1,001,000	+15.2
806	Grand Total	$3,598,496	$4,047,913	+12.5

*Includes building specialties. †Deficit.

Bearing in mind that the foregoing summary is purely preliminary, the fact that over 800 companies so far reporting increased their combined net profits from $3,598,000,000 in 1928 to $4,047,000,000 in 1929 or by 12 per cent is a good showing for a year that ended with sharp curtailment.

A majority of the group classifications showed an increase in earnings, and in some instances the gain was very substantial. The steel industry had its greatest peacetime year and reports of nineteen companies, which represent about 80 per cent of the industry, show aggregate net profits in 1929 of $315,147,000 as compared with $184,640,000 in 1928, the gain being $130,000,000, or 70 per cent. Annual reports were more favorable than had been generally expected on the basis of actual figures covering nine months and estimates for the fourth quarter, when production was sharply curtailed. Net profits of the two largest companies in 1929 made the following comparison with the corresponding periods of 1928.

UNITED STATES STEEL CORPORATION

	1928	1929
Fourth Quarter	$ 30,739,896	$ 39,972,358
Entire Year	114,173,775	197,531,349

BETHLEHEM STEEL CORPORATION

	1928	1929
Fourth Quarter	$ 6,399,348	$10,046,197
Entire Year	18,585,932	42,242,980

Last year both of these companies called in a large part of their outstanding bonds with the proceeds of additional common stock offered to shareholders, which will reduce their interest charges and increase the earnings available for dividends. As the actual redemption of bonds did not for the most part take place until the latter part of the year, the lowering of interest charges in 1929 did not have any great effect on reported earnings and amounted to about $10,000,000 for United States Steel, but when quarterly comparisons of 1930 with 1929 are made this saving in interest charges must be taken into consideration.

Money and Banking

The past month has witnessed a liquidation of bank credit not only from the seasonal volume always outstanding in December and over the year-end, but in continuance of the downward trend which resulted from the decline of stock speculation and general business activity in the Fall.

The principal items of the consolidated Reserve statements of January 25, 1928, January 23, 1929, October 23, 1929, and January 29, 1930, are given herewith showing the position of the Reserve banks at these dates over the period of two years.

(000,000 omitted)

	Jan. 25, 1928	Jan. 23, 1929	Oct. 23, 1929	Jan. 29, 1930
Gold Reserves (*)............	$2,819	$2,648	$3,035	$2,985
Rediscounts and advances..	385	782	796	406
Bills bought in open market	347	454	379	258
U. S. Securities held........	441	202	136	477
Total bills and securities..	1,174	1,447	1,337	1,154
Federal Reserve notes......	1,585	1,661	1,857	1,702
Member bank reserve dep...	2,355	2,359	2,378	2,308
Consolidated reserve percent	75.	69.3	74.5	78.3

(*) Holdings of gold certificates $441,503,000 December 31, 1929, $421,520,000 December 31, 1928.

The first impression received from the above figures is as to the comparatively small changes in Reserve bank holdings during the remarkable period of the last two years. Member bank reserves at the dates given show a fluctuation at the outside between $2,355,000,000 and $2,378,000,000, which, however, does not quite give a true picture. The lowest figures for these reserves during the period were $2,269,000,000, August 29, 1928, and the highest figures were $2,652,000,000 October 30, 1929. The rise at the latter date was due to release of Reserve credit in the market panic. The figures of the table fairly represent the general stability of member bank reserves throughout the two years.

The figures of October 23, 1929, show the condition of the Reserve banks just before the drastic stock market liquidation. The total amount of Reserve credit outstanding at that time was less than in the preceding January, having been reduced by gold importations. From October 23 to January 22 last, rediscounts and advances to members declined by $390,000,000 and open market bills by $121,000,000, a total of $511,000,000, but purchases of government securities offset this contraction in part, the net reduction in these items between the two dates being $183,000,000.

It is an interesting fact that the item in the consolidated Federal Reserve statement, "Contingent liability on bills purchased for foreign correspondents," which stood at $487,000,000 on October 23, rose to $548,000,000 on December 31, and at the latest date, January 29, stood at $535,000,000. Presumably these are purchases for central banks.

The Member Bank Situation

The member banks reporting weekly account for approximately two-thirds of the aggregate resources of all members. The condition of the member banks over the last two years may be fairly understood by the following figures from their reports, taken in connection with the figures given above from the consolidated statements of the Reserve banks of the same dates:

(000,000 omitted)

	Jan. 25, 1928	Jan. 23, 1929	Oct. 23, 1929	Jan. 22, 1930
Loans on securities....	$6,673	$7,356	$7,920	$7,714
All other loans..........	8,559	8,707	9,580	8,974
Total loans	15,232	16,062	17,500	16,688
Investments, U. S. Gov't	3,021	3,116	2,654	2,737
Other investments	3,095	2,954	2,740	2,812
Total investments	6,116	6,071	5,394	5,549
Total loans and invest.	21,348	22,133	22,895	22,237
Total deposits..........	20,417	20,334	20,328	20,086
Owing Reserve Banks..	293	554	554	220

It will be seen that "other" bank loans increased more from January to October 1929, than loans on securities, business having been generally active and the banks giving the preference to business loans over security loans. Since October 23, business loans have fallen off more than security loans, but in connection with this it should be remembered that in the meantime the banks have taken over a very large amount of stock loans which had been carried by other lenders. Nevertheless a net reduction of $206,000,000 occurred in these loans from October 23 to January 22, with a total reduction in all loans of $812,000,000.

On the other hand, bank holdings of investment securities, which had begun to fall off in 1928, declined from January 23, 1929 to October 23, 1929, by $677,000,000, but since the last named date have been tending upward. They have increased by $155,000,000 in three months. This is a natural result of the falling off of the demand for loans, and the decline of the high interest rates which had induced the selling of investments.

It is interesting to analyze the reduction of borrowings at the Reserve banks since January 23, 1929, and note where the chief liquidation of member bank credit has occurred. We give below the figures for the borrowings of the member banks of New York and Chicago separately, the aggregate of the other reporting banks and the aggregate of the non-reporting banks, on the same dates for which the figures above are given. New York and Chicago are the two leading cities in banking resources, the other reporting banks are located in 101 cities ranking next in importance, and the non-reporting banks comprise the remaining banks of the system, having about one-third of the total resources.

ANALYSIS OF MEMBER BANK BORROWINGS
(000,000 omitted)

	Jan. 25, 1928	Jan. 23, 1929	Oct. 23, 1929	Jan 22, 1930
New York City members..	$84	$81	$41	$44
Chicago members	15	78	4	2
Other reporting members..	162	395	509	174
Non-reporting members....	124	228	242	218

It will be seen that New York and Chicago were borrowing but little in October, and at present are almost out of the Reserve banks. The other reporting banks have paid off about 60 per cent of what they owed the Reserve banks on October 23, and the non-reporting banks have paid off about 15 per cent of their Reserve indebtedness at that time. The explanation of this variation in the degree of liquidation doubtless is in the varying extent of stock exchange loans held by the several groups.

The Money Market

Interest rates were slightly easier in January than in December. In the call market in December the renewal and closing rates were steady at 4½ per cent from the 2nd to the 20th, after which they ranged from 5 to 6 per cent for the remainder of the month. In January the rate was 4½ to 6 per cent in the first three days, and after renewal at 5 on the 6th fluctuated from 4½ down to 4 per cent.

Time loans, from 60 days to 6 months, collateral security, were steady at 4½ to 5 after the 9th to the end of the month, a situation which would seem to indicate no definite expectations of a change toward either firmer or easier condition in the first half year.

Commercial paper has had some revival in activity, after about three years of declining volume, which had been due to the prevailing high rates in the collateral loan market. During the high rate period, business has had to

stay rather closely by its regular banking connections. From a volume approaching $700,000,000 in the first half of 1926, the amount of paper outstanding declined to $265,000,000 at the end of August, 1929. In November it made a substantial recovery. Rates were steady at 5 to 5¼ through December and since January 10 have been at 4¾ to 5.

A comparison between money rates last week and in the corresponding weeks of 1929 and 1928 is afforded by the following statement:

Last week January	On Call	Time Loans	Com. Paper	Acceptances
1930..	4 to 4½	4½ to 5	4¾ to 5	4
1929..	6 to 8	7½ to 7¾	5¼ to 5½	5
1928..	3½ to 5	4⅜ to 4½	4 to 4¼	3½

It will be seen that rates still are slightly above the level of two years ago, but it should be considered that in January, 1928, the discount rates of all Reserve banks were 3½ per cent until the 25th, when the Chicago rate was raised to 4, followed by the Richmond rate on the 27th. The New York rate was raised from 3½ to 4 on February 3. If Reserve rates were as low now as then, market rates might be as low as then.

One change in Federal Reserve discount rates occurred during the past month—a reduction by the Philadelphia Reserve bank from 5 to 4½ per cent. The present rate upon all classes and maturities of eligible paper are 4½ per cent at the Boston, New York, Philadelphia, Atlanta, Chicago, Kansas City and San Francisco banks, and 5 per cent at the Cleveland, Richmond, St. Louis, Minneapolis and Dallas banks.

No Evidence of Undue Extension

The figures given above do not afford any basis for the opinion advanced in some quarters that the banks are over-extended and will have to undergo liquidation before the country will know where it stands or funds will be available even for industrial revival. The banks cannot be said to be unduly extended when they are operating with reserves in accordance with the banking law, and with no larger borrowings at the Reserve banks than at present. In view of the number of members, located in all parts of the country, serving the varying needs of many localities, present borrowings are not above normal requirements.

It cannot be supposed that banks will not use their own resources to whatever extent safe employment is offered. This is banking practice everywhere, excepting the case of central banks, which hold the reserves and accept the responsibility of supervision over the credit situation. Outside of the Reserve institutions, banking is a highly competitive business, conducted under heavy fixed expenses, and practical considerations require that individual institutions shall keep their funds employed. The common practice of trading in Reserve balances, recognized by the Reserve authorities, illustrated this fact. A bank which has surplus reserves usually disposes of them to banks which can use them.

With the Reserve banks functioning as they do, fluctuations in the volume of bank credit occur almost wholly in their portfolios, the exceptions being as gold imports enable the member banks to expand their credits without borrowing, or gold exports compel a reduction which the Reserve authorities permit to become effective upon the credit situation.

With the volume of reserve credit as low as now, no further liquidation in the aggregate of member bank credit need be expected. The business of this country is growing and surely will call for more credit in the not distant future. If the business recession should go so far as to release more credit temporarily, the banks may be expected to reinstate their bond holdings, as in fact they already have begun to do.

The theory that numerous banks are loaded up with frozen collateral loans is simply a surmise prompted by the rapid decline of stocks. It is not improbable that banks hold more or less of collateral loans which the borrowers are indisposed to pay by the sale of the collateral, although the collateral may be sufficient to cover the debt. Such loans may be regarded as "frozen," but if they are amply secured the banks are not likely to press for payment in the present state of the money market, and in any case they certainly are no bar to credit expansion in any volume that business may require. Although bank failures are reported occasionally in suburban or rural localities over the country, information uniformly is to the effect that they are due to real estate operations or agricultural depression, rather than to the stock market situation.

Instead of the decline of stocks having operated to reduce the amount of loanable funds available to business, the effects are quite the opposite, as the fall of interest rates indicates. An abnormal competitive demand for credit, which was a growing menace to business, has disappeared. It was an abnormal situation to have savings deposits steadily declining and the savings banks obliged to sell securities on a falling market to pay them; likewise to have building and loan associations suffering withdrawals upon a scale which forced them to consider mortgage foreclosures; and in general to have a trend of funds from all parts of the country to this market for speculation in stocks or loans at interest rates more attractive than industry can afford to pay.

Of a piece with the theory that the supply of credit has been impaired is the idea that the country has suffered capital losses which must

be repaired or become involved in capital obligations which must be made good before business can proceed on a normal basis. The country has suffered no loss of capital except by the derangement of business, which has reduced the rate of capital accumulations temporarily. The reservoir of capital from which the progress of the industries is financed is constantly fed by streams of profits and savings, and under normal conditions is constantly drawn upon for the purchase of investments. These in the last analysis consist of fixed properties of some kind, nowadays usually represented by stocks and bonds. The flow of new capital into the reservoir never was so great as in the past year. Dividend and interest payments in the months of December and January never aggregated so large as in the two months last past, and although earnings and savings no doubt have been affected by the slowing down of business, it is not likely that they will be seriously reduced in the full year 1930.

These new accumulations of capital are bound to find employment in some way, and unless new demands appear, interest rates will fall and outstanding securities will rise until these conditions stimulate enterprise and industry to a state of activity which will absorb the increasing supply of funds.

The interesting question is, how fast will this process proceed? This depends in part upon conditions in foreign money markets and in the immediate future to some extent upon the policy of the Reserve banks. The effects of gold exports in November and December and of increasing currency circulation were temporarily neutralized by a release of Reserve credit through open market operations, but from December 31 to January 29 earning assets of the Reserve banks have been reduced from $1,548,000,000 to $1,154,000,000, which means that the reduction of member loans in this time has gone largely to the improvement of the Reserve position instead of into the money market. To that extent it has not been effective upon money rates, but this will hardly be the case from now on.

Brokers' Loans

Brokers' loans as reported by member banks to the Federal Reserve Bank of New York on January 22, aggregated $3,341,000,000, which compares with $3,328,000,000, the low point since the market break, on December 24 last. The division of the loans as of January 22, 1930, October 23, 1929 and January 25, 1929 is shown herewith:

(000,000 omitted)

	January 23, 1929	October 23, 1929	January 22, 1930
For own account.....	$1,010	$1,077	$814
For out-of-town banks	1,853	1,733	874
For account others....	2,579	3,823	1,653
Total............	$5,442	$6,634	$3,341

Total of brokerage loans from all sources reported by the New York Stock Exchange as of January 1, 1930, was $3,989,510,273, which compares with $4,016,598,769 December 1, 1929, $5,108,824,886 November 1, 1929, $8,549,385,979 October 1, 1929 (highest ever reported) and $6,439,740,511 on January 1, 1929. These figures, of course, include the figures reported by the Reserve Bank, given above. At the peak of stock exchange loans the brokers were obtaining $1,472,000,000 through other channels than the member banks of New York and at the end of December were obtaining $620,000,000 through other channels.

Activity in the Bond Market

The easing of money rates which occurred in January has had the usual stimulating influence upon the bond market. Total volume of bond offerings advertised in the New York market was $626,000,000, according to the Wall Street Journal, the largest for any month since April, 1928, and within striking distance of the record since the war, reached in October, 1927, when the total was $766,062,000. Of the January figure, $388,000,000 or 62 per cent fell in the public utility group which was swelled by several exceptionally large pieces of business, including $150,000,000 5 per cent debenture bonds of the American Telephone and Telegraph Company, offered at 99½; and $50,000,000 5 per cent gold debentures of the International Telephone and Telegraph Company, offered at 96½. Besides heavy public utility financing, other important offerings of the month included a $29,050,000 issue of serial bonds of the State of Tennessee, offered at 100.16—104.37; $35,088,000 4½ per cent bonds of the Chesapeake and Ohio Railway, offered at 94; and $18,000,000 5 per cent bonds of the Canadian National Railways offered at 99½. Except for the foregoing Canadian railway offering and several other smaller Canadian issues, foreign offerings continued conspicuously absent from the list.

Contrasting with the large total of bonds, the volume of stock issues continued extremely limited, netting only $32,000,000, so that total new capital issues, despite the growth of bond financing, fell far below that of the active months of last year when the total in one month (September) reached as high as $1,306,600,000.

With so large a volume of new bonds coming on the market, it is not surprising that prices of outstanding bonds failed to improve markedly and at times showed some irregularity. The real measure of improvement in investment demand lies not, at the moment, in the trend of prices, but in the gratifying manner in which the new issues have been

received, which speaks well for the underlying strength of the market.

Foreign Money Markets

Foreign money markets on the whole have continued to work easier since the first of the new year, as appears by the action of central banks in reducing discount rates, but a slight reaction has occurred in the London market, as a result of the failure of the Bank of England to make another reduction, as anticipated. The inflow of gold from the United States did not continue into January as expected and the rising value of dollar exchange indicates that it is over for the present, but London is still losing to the continent.

The Bank of England rate is now 5 per cent, to which it was reduced on December 12. The Bank holdings of gold have been strengthened materially since then and are again above the "Cunliffe minimum" of 150 million pounds. Doubtless a further reduction would have been made but for the unfavorable trend of exchange rates. After being above par for almost three months, the pound in New York weakened in January. The London open market rate has been at 3$\frac{15}{16}$ to 4⅛ in the past month, or approximately one full point under the bank rate.

The central banks in France, Belgium, Sweden, Germany, Netherlands, Austria, Hungary and Poland lowered their rates in January, each by half a per cent, and these reductions, together with those made during the last three months, make an impressive showing of rapid and general relaxation, made possible by the collapse of the stock market demand. The Bank of France reduction was from 3½ to 3 per cent, its lowest rate in 17 years.

The reduction of the Bank of France rate was expected, the private money and day-to-day money being quoted a full two per cent below the Bank of France rate on advances (5½). This rate was reduced to 4½ per cent, and being representative of the bulk of current borrowings in France, it removes pressure from the Continent upon the pound. Private money has been extraordinarily cheap during the last month in other Continental centers, Amsterdam rates being as low as 2 per cent, Zurich 2 per cent and Brussels 3½ per cent. Day-to-day money was even cheaper in Brussels and dropped to 1 per cent the second week in January.

The list of central bank rate reductions since the end of October is given herewith. Every one of these banks has made at least two reductions, as appears.

REDUCTIONS IN FOREIGN CENTRAL BANK RATES

1929	Oct.	31	Bank of England	6½ — 6
	Nov.	1	Netherlands Bank	5½ — 5
		2	German Reichsbank	7½ — 7
		4	National Bank of Hungary	8 — 7½
		14	National Bank of Belgium	5 — 4½
		15	Bank of Poland	9 — 8½
		16	Netherlands Bank	5 — 4½
		21	Bank of England	6 — 5½
		22	Bank of Norway	6 — 5½
		23	Austrian National Bank	8½ — 8
		26	National Bank of Rumania	9½ — 9
	Dec.	9	Austrian National Bank	8 — 7½
		12	Bank of England	5½ — 5
		13	Bank of Sweden	5½ — 5
		27	Bank of Denmark	5½ — 5
		27	Bank of Norway	5½ — 5
1930	Jan.	1	National Bank of Belgium	4½ — 3½
		1	Bank of Sweden	5 — 4½
		13	German Reichsbank	7 — 6½
		16	Netherlands Bank	4½ — 4
		24	Austrian National Bank	7½ — 7
		24	National Bank of Hungary	7½ — 7
		30	Bank of France	3½ — 3
		30	Bank of Poland	8½ — 8

The situation in France continues to command exceptional interest. The gold reserve of the Bank of France on December 28, 1928, was 31,977,000,000 francs and on December 27, 1929, 41,668,000,000 francs, which signifies an increase during the year of $380,000,000 and the gain in the past month has been $46,000,000 more, together approximately equalling the world's production of gold in 1929. This, however, does not signify that the Bank has reduced its foreign credits by an equal amount. Its holdings of "sight balances abroad" and "bills purchased abroad" on January 10, 1930, were 25,931,000,000 francs ($1,016,000,000) against 30,970,000,000 francs ($1,214,000,000) on January 12, 1929, a reduction of about $200,000,000. Practically all of this reduction occurred in the first five months of the year. The remainder of the gold importations must have been on account of foreign holdings of other banks and private parties, who have owned foreign balances and elected to convert them into francs. Either these parties have arranged the gold shipments themselves and deposited the gold with the Bank of France for conversion into the franc currency or they have sold foreign exchange to the Bank, which has reimbursed itself by importing gold to cover. The Bank's action in reducing its discount rate to 3 per cent plainly shows that it wishes to discourage further accumulations of gold, partly, it may be presumed, because it does not wish to disturb other money markets, and also because it may apprehend that excessive ease in the Paris market may promote price inflation.

The French policy regarding these foreign holdings may be assumed to be that of gradually bringing them home in the form of gold, with the intention of making Paris a more important center of world finance than it has been heretofore. This is a natural and legitimate ambition and can be realized only by making it an open and free market for flotations. Heretofore, however, the taxation upon

issues and transfers has been practically prohibitive of foreign financing, but within recent weeks this taxation has been reduced one-half or thereabouts. It is still too high; indeed, to become an important international market, Paris will have to be a free market, but the French Government still has in prospect the refunding of most of its war debt and probably does not care to open the Paris market to foreign issues until this is out of the way, which will be some years hence. Furthermore, France is developing industrially and commercially and has much financing of this kind in prospect for the present year. Apparently, for the immediate future, France rather than the United States will have to bear the responsibility for tight money conditions, if such prevail.

One of the significant events indicating the purpose to make Paris a more important international money market is the recent organization of an Acceptance Bank, to perform the functions of similar institutions in London and New York. The functions are stated briefly as follows:

(1) To direct, mediate and seek fresh outlets for the employment of France's surplus funds.

(2) To intervene in international transactions with a view to facilitating French foreign business. This may be accomplished by endorsing French bills of exchange, which, being guaranteed by a signature, will be more readily accepted abroad, and thus render the diffusion and circulation of such bills more easy. Reciprocally, this bank, or banks, would discount the foreign bills of French exporters on the least onerous terms and with the minimum of risk.

The Bank will start with an authorized capital of 100,000,000 francs, of which 25 per cent will be paid up. The leading commercial banks of Paris are well represented on the Board of Directors.

Gold Movements

The Federal Reserve system made a net gain of approximately $115,000,000 of gold in the year 1929, ranking in gain next to the Bank of France. The Reichsbank suffered a net depletion of its stock in the amount of approximately $100,000,000. The central banks of the Netherlands, Belgium, Sweden, Poland, Czechoslovakia, Austria, Italy, Spain and Switzerland held more gold at the end of the year than at the beginning, but in most cases the changes were small. The losses of other European banks were small.

Several countries outside of Europe suffered by the drain of gold to the centers, due for the greater part to low prices for staple export products or poor harvests. Argentina harvested large crops early in 1929 and had a favorable trade balance in the greater part of the year, but an adverse trade in the latter part of the year, together with a loss of about $150,000,000 of gold by exports, caused apprehensions which prompted the Government to suspend gold payments, an action which from the outside has seemed to have been hardly necessary, in view of the fact that at the time paper currency was backed by a gold reserve of more than 80 per cent. Unfortunately the nation has no central bank with the power of expanding note issues to meet normal fluctuations in demand, and a loss of gold from the conversion fund has the effect of causing a corresponding contraction of the currency, with a serious disturbance of business. The conversion fund held the equivalent of $450,000,000 gold at the beginning of 1927, from which point it gained about $170,000,000 to the middle of 1929, thereafter declining to about $450,000,000 when further payments from the conversion fund were stopped. As a means of mitigating a stringent situation the Government has announced the adoption of a plan under which gold may be deposited with the Argentine legations abroad in exchange for currency at the conversion office, with the privilege of reversing the exchange at will within six months. At the end of six months, unless the currency is retired, the gold so deposited becomes the property of the Argentine Government, and will be shipped to Argentina for deposit in the conversion office. Also the Government has borrowed £5,000,000 in London, to remain there for drawing purposes as needed.

Australia has been laboring under an adverse trade balance due to the low prices of wool and wheat. Some $25,000,000 or $30,000,000 of gold has moved to London, and the Government has secured an amendment to the Commonwealth Bank Act, empowering the Bank (a Government-owned institution) to requisition gold in the possession of banks or individuals in Australia for the purpose of strengthening the institution.

In Canada the situation has been unusual by reason of the short wheat crop and the action of the Farmers' Wheat Pool in holding back the crop for better than current prices. Whatever the results of the policy may be otherwise the lower exports have deranged the Canadian exchanges. Thus the total exports of produce in the month of November, 1929, were valued at only $111,000,000, against $167,000,000 in that month of 1928. On the other hand, the Canadian family as a whole has gone on consuming as many foreign goods as in 1928, imports in November last being in fact larger than in that month of 1928. In the first eleven months of 1929, Canada had an import surplus of $91,300,000, whereas in the corresponding period of 1928 she had an export surplus of $120,500,000. Canada is a young and borrowing nation and requires an export surplus to meet her interest obligations. The farmers are as influential a factor in Canada as in the United States and nobody wants to interfere with the Wheat Pool. The banks are lending

on wheat, and in view of the circumstances it is thought undesirable to have gold exported, hence it does not go out, although existing exchange rates indicate that it should move. Canadians know as well as any people in the world that accounts must somehow be made to balance, but this time they will have to wait until the farmers are ready. The situation of course is temporary.

Resumption of gold payments was accomplished by Japan on January 11, and exports of gold to the end of the month aggregated about 45,000,000 yen. This movement was expected, inasmuch as remittances naturally would be held up until exchange had reached par. With the accumulation cleared up the exchanges should be normal. The gold resources of the Bank of Japan and the Government aggregate over 1,500,000,000 yen.

One shipment of $5,110,000 of gold from Brazil has been received at New York in the last month and another of approximately the same amount has left Rio de Janeiro for the same destination. The balance of payments was running against Brazil even before the drop occurred in coffee, which aggravates the situation.

The Young Plan Ratified

The new agreement for German reparation payments, under the Young plan, complete in details, was formally signed at The Hague last month by the responsible ministers of the governments which were parties to the Dawes Agreement. It must yet be ratified by the parliamentary bodies of the several countries, but as the ministers have parliamentary majorities behind them that action is assured.

The principal features of the Young plan were described in the July number of this publication and need not be referred to in detail now. The agreement represents a compromise of claims, as all such agreements must. A strong body of opinion in Germany holds not only that the obligations assumed by that country will prove unduly oppressive, but greater than can be discharged. On the other hand, public opinion in the creditor countries holds that these obligations are not heavier than the debts in which those countries are involved on account of the war. The negotiating representatives on both sides have had the task of securing an agreement which promised to be fairly acceptable to public opinion in the several countries. It is much that a settlement has been arrived at by negotiations and with substantial concessions from the former agreement. It is obvious that the war was not a source of gain to the victors, but a terrible calamity for every country that was in it. The new agreement has been entered upon by all the parties with a sincere desire to "liquidate the past" and place it behind them. It is impossible to say absolutely that the settlement never will be reopened, but it is safe to predict that it will not be reopened unless there is convincing evidence that the terms are impracticable and that changes will serve the interests of all concerned. One thing is certain, i.e., that the sum total of all the payments that are spread over fifty-nine years would not be worth to either side the cost of one year of war.

One of the notable features of the new agreement is the provision that the responsibility of determining a default on the part of Germany shall be referred to the Permanent Court of International Justice at The Hague. This is of value not only as a means of obtaining an impartial judgment upon a situation possibly arising under the agreement, but as an example of the class of services which the World Court is established to render, and as tending to accustom the world to the use of the tribunal.

The Dawes Plan laid the basis for the reconstruction of Europe. It recognized the fundamental truth that the peoples of Europe must continue to live as neighbors, and that they must live in peace and prosper together in order that any of them may prosper. All of Europe has made great progress since the Dawes Plan was inaugurated, and other countries have prospered as well. The new agreement is another and more definite guaranty of the peace of Europe, and may well mark the beginning of a new era of world intercourse and friendly cooperation for the advancement of common interests. A successful issue of the disarmament conference now proceeding in London, which will avert the expenditure of vast sums of money in rival armaments, will be a fitting supplement to the agreement consummated at The Hague.

The Bank for International Settlements is another important feature of the new plan. The objects of the Bank are broadly defined as "to promote the cooperation of central banks and to provide additional facilities for international financial operations, and to act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned." The immediate purpose in its organization is to act as trustee or agent in receiving the reparation payments from Germany and distributing them to the recipient governments, and to assist in the sale or distribution of bonds issued against the reparation obligations. Doubtless it was the opinion of the authors of the plan that the performance of these tasks would be facilitated if the proposed institution was closely related to the central banks of all countries and could play the part of a clearing house between them. Presumably it was in their minds also that the association of central banks in the management of the new institution would tend to bring

about closer cooperation in the management of gold reserves and the maintenance of stable credit conditions throughout the world. Since the board of directors is to be composed of the chief executives of the central banks of Belgium, France, Germany, Great Britain, Italy and Japan and a representative banker of the United States (the Reserve system not participating) it is not an improbable idea that it might in time develop into a standing conference committee on international financial conditions.

Care has been taken, however, to circumscribe the activities of the Bank with a view to preventing interference with the functions which the central banks are discharging in their own countries. The latter have a veto power over any business in their own countries. The Bank is intended primarily to do business only with central banks, but may carry on operations with banks, bankers, corporations or individuals of any country, with the consent of the central bank of that country. It may not issue notes payable to bearer, accept bills of exchange, make advances to Governments or open current accounts with them, because such business inevitably would interfere with the central banks. It is also prohibited from acquiring a predominant interest in any business or owning real estate except as required for the conduct of its own business. It is charged to have particular regard for the maintenance of a liquid position, but the only requirement as to a reserve is that it shall retain assets suitable to the maturity and character of its liabilities.

The provisions regarding the objects of the Bank, the veto powers of central banks upon its operations, the composition of the board of directors, distribution of profits and revision of the statutes are to be set forth in the charter granted by the country of domicile (Switzerland), hence can be changed only by an amendment of the charter, which, of course, would require the cooperation of the Government of Switzerland.

The authorized capital is to be 500,000,000 Swiss francs (approximately $96,500,000) divided into 200,000 shares, but the Bank may begin business when 112,000 shares have been subscribed and 25 per cent of the par value paid in. In extending invitations to subscribe for capital, consideration shall be given to the desirability of associating with the Bank the largest possible number of Central banks. The seven Central banks of the chief reparation powers will subscribe for a majority of the shares.

The division of profits is novel on account of the provision for a distribution to the Governments of the Reparation countries and also to the Government of Germany. The yearly net profits of the Bank shall be applied as follows:

(a) 5 per cent thereof to a Legal Reserve Fund, till that fund amounts to one-tenth of the paid-up capital.
(b) A cumulative dividend of 6 per cent on the paid-up capital.
(c) One-fifth of the remainder to the shareholders until a maximum further non-cumulative dividend of 6 per cent is reached.
(d) One-half of the balance to a General Reserve Fund until it equals the paid-up capital, and thereafter, on a decreasing scale, until only 5 per cent of the balance is paid when the Fund is five times the paid-up capital.
(e) During the currency of the Young Plan the remainder of the net profits is distributed as to 75 per cent to the Reparation countries in proportion to the long-term deposits maintained by them with the Bank, and as to the remainder to a special fund for aiding Germany in paying the last 22 Young annuities, on condition that she makes a special long-term deposit of 400,000,000 Reichsmarks; if she elects to deposit less, her participation in this 25 per cent remainder will be proportionately reduced, the difference being added to the share of the long-term depositors previously mentioned. If the 25 per cent more than covers the last 22 annuities, the balance goes to the creditor Governments in proportion to their net debt payments. The Special Fund constituted under this provision earns compound interest at the maximum current rate paid by the Bank on time deposits. At the end of the Young Plan period the disposal of the last 25 per cent shall be determined by the general meeting, on the proposal of the Board. (Art. 53).

The creditor powers at The Hague also reached an agreement upon the terms of a settlement with Bulgaria and Rumania and the succession states of the Austro-Hungarian empire upon reparations and the various claims which these states have on each other. Under the peace treaties, Austria, Hungary and Bulgaria were bound to pay reparations, but the situation was complicated by various agreements incidental to the division of the empire and the assessment of reparation claims to the several states, also private claims on account of losses suffered by property-owners under the terms of the treaties. The reparation claims have been reduced to small proportions, and the private claims are to be adjusted by mixed commissions.

One of the considerations influencing France to the acceptance of the Young Plan in substitution for the Dawes Plan was the prospect of getting a portion of the reparations debt into form for sale on world markets, thereby changing its character from that of a contract between the original parties to that of an ordinary public obligation. The new International Bank is to have charge of such offerings, and it is understood that the first of them will be brought out in the coming Spring. The earliest report was that the amount of the first offering would be $200,000,000, to be apportioned to the principal markets of Europe and perhaps one-quarter to the United States. Then it developed that Germany was planning to do some foreign borrowing at about the same time, and a conflict of issues being

undesirable, reports from The Hague have stated that the first loan will be for $300,000,000, of which $100,000,000 will be for the benefit of the Germany treasury and $200,000,000 upon reparations account. It is not improbable that there may be two simultaneous issues, but it is not likely that a loan for the German Treasury will be secured by railroad bonds which are pledged to reparations. No authoritative statement of the plan has been made or can be until the International Bank has been organized.

Low-Priced Staple Commodities

In Europe the outlook for 1930 is generally regarded as encouraging, owing to the reparations settlement and the pronounced reduction of interest rates in all countries. On the other hand, in the countries of the world which are dependent upon the exportation of crude products, raw materials and the staple foodstuffs, the prospects are rather depressing. This class of commodities is in more than abundant supply, and low prices are seriously affecting the buying power of the producers. Sugar, coffee, tea, rice, cacao, copra, rubber, wool, wheat, butter, cotton and cotton goods, silk, jute, silver, petroleum, tin and coal are all at prices lower than have prevailed in recent years and in some instances are said to be below current production costs. Many of these are not produced in this country, nevertheless the fall of prices unquestionably will have an effect upon the volume of international trade, and must be felt directly and indirectly in the United States.

In the tropical regions of South America and the Caribbean region, coffee, sugar, cacao and copra are the chief supports of trade with the United States and Europe, and the main dependence in meeting outstanding obligations. Coffee is the leading product of Brazil, Colombia and the countries of Central America. The following table will show the increased importance of coffee in the exports of these countries from 1913 to 1927, which is the latest year for which foreign trade figures for all of them are at hand. It also shows the extent by which the per capita imports of most of these countries has increased in the same time:

	Coffee's share in the Exports (Per cent of Total)		Per capita Imports (In Dollars)	
	1913	1927	1913	1927
Brazil	62	71	13.04	11.96
Colombia	54	66	5.02	13.67
Costa Rica ...	35	59	21.17	31.31
Guatemala ...	85	82	4.75	9.91
Nicaragua	65	57	9.67	12.50
San Salvador..	80	89	4.41	9.92

The above figures were compiled by the League of Nations. The apparent decline in per capita Brazilian imports may be explained by the lowered purchasing power of milreis and the expansion of local production of food products, cotton and leather goods, etc., during and after the war. The decline of coffee production in Nicaragua in 1927 was directly due to the factional war in which the country was involved.

The price of Brazilian coffee is now over 40 per cent lower than a year ago, and lower than in any year since 1921; also lower than in 1913. The excellent prices prevailing for coffee in recent years have greatly stimulated improvement and development, in fact have almost revolutionized social conditions in the coffee countries. We are not without knowledge in the United States of how such stimulating conditions encourage a people to go into debt in the expectation of enlarging their future incomes, and of the disastrous results which follow a sudden reversal of conditions. Unfortunately, the high prices for coffee not only stimulated the construction of railways, highways, cities, better homes, etc., but stimulated the planting of more coffee trees. The coffee situation in Brazil was described in this publication last month, and has undergone no important change. It is inevitable that the importations of foreign goods into Brazil will be drastically reduced this year.

Colombia has been carrying on an extensive program in the construction of public works, including highways and railroads, financed by foreign loans. No new loans were negotiated last year, on account of the high money rates prevailing, and this work has been discontinued. The cessation of these expenditures, together with the decline of coffee, has seriously affected the volume of imports, also the public revenues. The national budget is being reduced this year by approximately 20 per cent. As the use of Colombian mild coffee has been increasing, especially in this country, the decline in prices has been less severe than in the case of Brazilian coffee.

The policy of retrenchment has been promptly adopted by all the countries in whose exports coffee is an important factor. Information from Guatemala is to the effect that for the ensuing year the expenditure budget has been reduced from $13,000,000 to $8,000,000.

Cacao is of small importance in Colombia, but Brazil, Venezuela, Ecuador, Santo Domingo, Costa Rica and Panama derive important income from it. The production of cheap cacao in the British West African possessions which increased sixfold since 1913, is responsible for the present declining prices.

Copra, as a source of vegetable oil, is a very important product to the East Indies and the Philippine Islands. The price decline has been only moderate.

Argentina is a very important country in world trade, but her case is to some extent an exception to the rule that present unfavorable

prospects are due to over-production. Argentina is now harvesting a short crop of wheat and flaxseed, as the result of a severe drought in the growing season. At the present price the export value of this wheat crop is scarcely more than one-half that of last year. The price is not lower than it has been at other times in recent years, but is materially lower than it was at the beginning of the present crop year, although higher than it would have been but for the short crops in Argentina, Australia and Canada. The large carry-over at the beginning of the present crop year also is a factor.

Bolivia is one of the largest producers of tin, and tin, silver, copper and lead compose about 90 per cent of the country's exports. Tin and silver, to which more particular reference is made later, are depressed in price and production is curtailed on that account.

Among the chief products of Peru are copper, silver, wool, sugar and cotton, all of which, excepting copper, appear in the list of the depressed. In the case of copper, although prices are maintained, production has been curtailed, affecting numerous wage-earners. The Government has taken action suspending new irrigation works and new highway and railroad construction. Mention was made in this publication last month of Government decrees requiring all sales and contracts to be settled in Peruvian currency at par and forbidding the banks to buy foreign securities. The Government also has obtained authority for the issue of $4,000,000 of Treasury bills which is understood to be for the purpose of liquidating foreign contracts.

Chile seems to be in the most prosperous condition of any of the countries of South America, having a greater variety of products. However, she is suffering to some extent by the curtailment of both copper and nitrate production, and by the low price of wool. The demand for nitrate is affected by increased supplies of nitrogen fixed from the air and of ammonium sulphate. World stocks of these products are reported at about 2,500,000 tons at the end of 1929, against 2,000,000 tons at the end of 1928. The total world production in 1928 was estimated at 2,000,000 tons. Prices are lower than ever before, but are regulated by a price agreement between the Chilean and European producers, approved by the Chilean Government.

Since nearly every country of South America but Venezuela has been mentioned, it is worthwhile to say that although this country is an important producer of coffee and cacao, owing to the development of the oil industry in recent years, conditions are by no means depressed. This is particularly true of the state of the National Treasury, which holds about $24,000,000 of ready money against a total public debt of only $16,000,000. The provident policy under which the Government receives a royalty on the oil production, accounts for this happy situation.

Wool is a product produced in many countries and in which there is a clear case of rapidly increasing production. Production has increased as follows*.

Country	1923 (lbs.) (000,000 omitted)	1929 (lbs.) (000,000 omitted)
United States	264‡	355
Australia	663	950†
New Zealand	200	260
Union of South Africa	184	282
Argentina	295	343†
Uruguay	100	150
Total 6 countries	1,715	2,341

*U. S. Dept. Agriculture, 1930. ‡1922. †1928.

The low price of wool seriously reduces the buying power of the leading producers named above, with perhaps the exception of the wool-growers of this country, for whose protection the import duties will be raised by the pending tariff bill. Inasmuch as this country is a large importer of wool and there is no prospect of its supplying its own needs, the duty will be effective in increasing the differential between the price in this country and the price abroad.

Sugar presents a clear case of over-production, due to the expansion of cane sugar cultivation during and immediately following the war, when beet sugar production in Europe was greatly reduced. Cuban unrefined sugar is selling in New York harbor, freight charges paid but duty unpaid, at about 2 cents per pound, and the investment of more than $1,000,000,000 in the Cuban sugar industry, taken as a whole, has earned no return in the past year. The low price is prompting countries producing a part of their supplies under a policy of protection to increase the protection, which tends to increase the world's over-production and postpone the reestablishment of normal conditions. The depressed conditions in Cuba directly react upon the United States, Cuba being one of this country's most valuable markets, and of course the domestic sugar industry suffers from the general situation. President Machado has signed a decree reducing salaries of the President, senators and representatives by 15 per cent, and of functionaries employed in the executive, legislative and judicial departments whose salaries range between $600 and $3,000 by 10 per cent. A thorough-going policy of expense-cutting will be adopted throughout the governmental budget and enforced economy will be the rule in private affairs until the sugar industry revives.

Rubber and tea are Asiatic products, but constitute means of buying the products of Europe and the United States. Rubber is very low, about 14½ cents per pound and is one of the few products far below the pre-war price. This is a case of excessive supply. Production

in the British colonies was held back during the period of restriction, and when restriction was taken off, November 1, 1928, the trees were able to yield more than the normal production. Tea is produced mainly in Northern India, Ceylon, Java, China and Formosa, and the chief increase in recent years has been Northern India and Java. The price is lower than it has been since 1921, but 40 per cent, or better, above 1913. Before the war Russia consumed about 180,000,000 lbs. annually, but in the year ended with September, 1928, its imports were only about 65,000,000 lbs.

Dairy products have only recently been classed among the distressed products, and it is a question whether they really should be classed there. Butter is 10 to 12 cents per lb. lower than a year ago, which is a reduction of 20 to 25 per cent. The visible cause of the decline, which has occurred in the last three months, was an increase of about 30,000,000 lbs. in stocks. Dairying has been the most profitable branch of agriculture since the war, and more farmers have been getting into it—northwest, west, southwest and throughout the south. For several years leaders in the industry have had misgivings that this very thing would happen, as the result of their prosperity, and now the "forecast" of the Bureau of Economics of the Department of Agriculture reluctantly expresses the opinion that the next five years probably will not be as profitable for the dairy industry as the last five. It advises the dairymen to rigorously weed the low producers out of their herds and nobody doubts that there is plenty of opportunity for weeding, although much has been done in recent years. "Hoard's Dairyman" intimates that there may be more profit in the industry at present prices than at higher prices in the past. It says:

> We milk over a million and a half less cows now than ten years ago, and supply 18 million more people with dairy products. This shows very concretely the progress the dairy industry has made in the past ten years to improve the production of the national dairy herd.
>
> The dairy farmers of this country should be complimented on this advancement. Think of the saving made by not feeding, milking, and stabling a million and a half cows; think of the thousands of people who would have to be employed to milk these cows if they were back on the farms and our methods of dairying were the same now as they were ten years ago.
>
> What would these items amount to? Would the dairy industry be better off with these 1,500,000 cows, and with butter at 48 cents a pound, than without them and with butter at 40 cents a pound? Here's a problem that offers more than amusement in its solution.

Butter affords an illustration of the doubtful results of much of the legislation in behalf of agriculture. The Fordney tariff act raised the tariff on butter from 2½ cents per pound to 8 cents, and several years later the President was persuaded to raise it to 12 cents, under the sliding scale arrangement. The pending bill carries a rate of 15 cents, but in the very face of these efforts the price declines 10 cents from a level which already was unattractive to foreign butter. Domestic production has been making the price so low for several years that foreign butter has come in only occasionally; and if there was no duty importations from overseas would be impossible now.

Cotton within the last week has touched the lowest price on the present crop, and a price unquestionably below what may be called parity with other products of industry and even agriculture. The immediate influence seems to have been the appearance of statistics indicating that the world consumption of American cotton has been declining and that of Indian cotton has been increasing. We doubt that the competition of other cottons is an important factor in declining consumption at this time, but it is evident that competition for the privilege of carrying cotton until it is wanted by consumers is not at all aggressive, notwithstanding energetic efforts to reduce the acreage of the next crop to 40,000,000, from 47,569,000 acres in the last crop. The cotton goods industry is no more profitable than the cotton-growing industry, and one explanation seems to fit both cases, viz: too much production for the market. This being a free country, anybody may either grow or spin cotton, and while plenty of good advice is offered by bystanders, and the producers themselves seem to have some comprehension of where the trouble lies, the situation is not corrected.

The Hunter Manufacturing and Commission Company, in its letter dated January 24, 1930, emphasizes the small excess production of goods in the following paragraph:

> Looking back over the last two years, we find that the market's reported production for that period was 7,090,000,000 yards, with sales of 7,010,000,000 yards, or 98.9 per cent of production, which is to say that the market sales were eighty million yards less than production for this period. This, therefore, shows that only a small percentage of curtailment, when figured on a yearly basis, is necessary to balance supply and demand and, if the mills will continue to curtail until stocks of goods are largely liquidated, prices will work to a satisfactory basis. At the end of 1929 stocks were only thirty million yards in excess of orders but the fact that goods are in stock and can be shipped promptly makes it impossible to secure fair prices.

Jute is a fibre product, coming almost wholly from India, the material of burlap and other common uses. The manufacturing is done to some extent in India, but Dundee, Scotland, has long been an important center. Germany and Japan also make jute fabrics, and the industry is everywhere depressed. A burlap exchange has been opened recently in New York, this country being a large consumer. The price of burlap is approximately 30 per cent lower than the average of 1928, and lower than in 1913, but not so low as in 1921. An effort has been made to incorporate

duties on jute and burlap in the pending tariff bill for the purpose of forcing cotton, a higher class of material, into use for bagging, but Congress has drawn the line there.

The consumption of raw silk has been increasing steadily in recent years, notwithstanding the growing production of artificial silk. Consumption in the United States has increased and this country is the chief consumer of the Japanese production, but production has increased even faster than the demand. Stocks of raw silk, in both the United States and Japan, are now larger than ever before; the price is lower than at any time since 1915, and only about 10 per cent above the 1913 price. Silk is the most important export product of Japan, and a very important factor in the country's prosperity. The silk industry in both Japan and Italy has appealed to the respective governments for financial aid.

The coal industry is overdone all over the world. The war stimulated increased production and new development in some countries, and since the war, consumption, instead of increasing with the growth of industry, apparently has tended to decline. By reason of improvements in engineering practice a given amount of coal generates more steam than formerly, locomotive records being notable. Oil is used to an increasing extent, especially by shipping, and hydro-electric development is another factor. Before the war the coal production of Great Britain reached 285,000,000 tons, but in 1929 was only 255,000,000 tons, although higher than in several years. Furthermore, the tendency is to large mining operations, equipped with labor-saving machinery of recent design, with which small operations cannot compete.

The average price of petroleum in the last twelve months has been lower than in any year since 1915. There is little basis for an informing comparison of the petroleum industry before the war and at present, because of the enormous development which has occurred in the meantime.

The industry of tin-production has been in an unsatisfactory condition for several years, as a result of over-production, stimulated by previous high prices. Repeated arrangements for controlling production have been ineffectual, but of late a number of important consolidations have occurred and another attempt to regulate production through an association of tin-producers is being made. The principal producer of tin is the Malay States, with Bolivia second, but the Dutch East Indies, Siam, China, Australia, and Cornwall produce important quantities.

Silver has been declining since 1926, although a recovery occurred in the Spring of 1928, as the result of large importations into China, probably for the payment of the contending armies. The lowest prices on record on the London and New York markets were made on Jan. 31, 1930, viz.: 20d in London, 43¼ in New York, per fine ounce. One important factor in the decline since 1926 has been sales by the Government of India, estimated at about 35,000,000 ounces in the past year and 67,000,000 in the last three years. The following estimate by Handy & Harman of production and consumption in the last three years is believed to approximate the facts.

WORLD SUPPLY AND DEMAND OF SILVER

In Millions of Ounces

	1929	1928	1927
World Mine Production			
United States	61.0	58.4	60.4
Mexico	105.0	108.5	104.5
Canada	22.5	21.9	22.7
All other countries	68.0	68.4	63.5
	256.5	257.2	251.2
Other Supplies			
Debasement of British coinage	10.0	5.5	1.2
Demonetized French and Belgian coin	10.0	32.0	8.0
Sales by Indian Government	35.0	22.5	9.2
	311.5	317.5	269.6
Demand			
Net Indian consumption	31.8	89.0	90.0
Net Chinese consumption	186.7	124.0	85.0
German imports	12.0	10.8	16.7
Arts and Manufactures in U. S. and United Kingdom	43.5	39.5	40.0
Coinage in United States	2.5	4.1	6.5
Coinage in Europe	6.5	9.5	......
Coinage in Far East	16.0	......	......
Unaccounted for	12.5	31.5	31.4
	311.5	317.5	269.6

The decline of silver represents a serious loss to holders in China, where silver is held for monetary purposes. Shanghai stocks as of November 2, 1929 are estimated by Handy & Harman at 198,000,000 ounces, and since silver is the standard of value in China, its decline in relation to gold means a loss of purchasing to the incomes of all classes and may be expected to affect the Chinese trade. Like efforts may be felt to some extent in India, but in that country the gold standard was reestablished 1927. Mexico is adversely affected as a large silver producer, many of the silver mines having been closed in the last three months. Mexico and Canada have almost the only mines that are operated primarily for silver, the bulk of production being obtained as a by-product from copper, lead and zinc ores.

Several of the products named above have been at low prices for several years, and as a whole the situation is not so bad as it was in 1921. The declines are illustrative of the changes which are continually occurring in industry, for which no remedy is evident except in a better adjustment of industrial development to consumption requirements. In numerous instances over-production has been stimulated by arbitrary efforts to control prices.